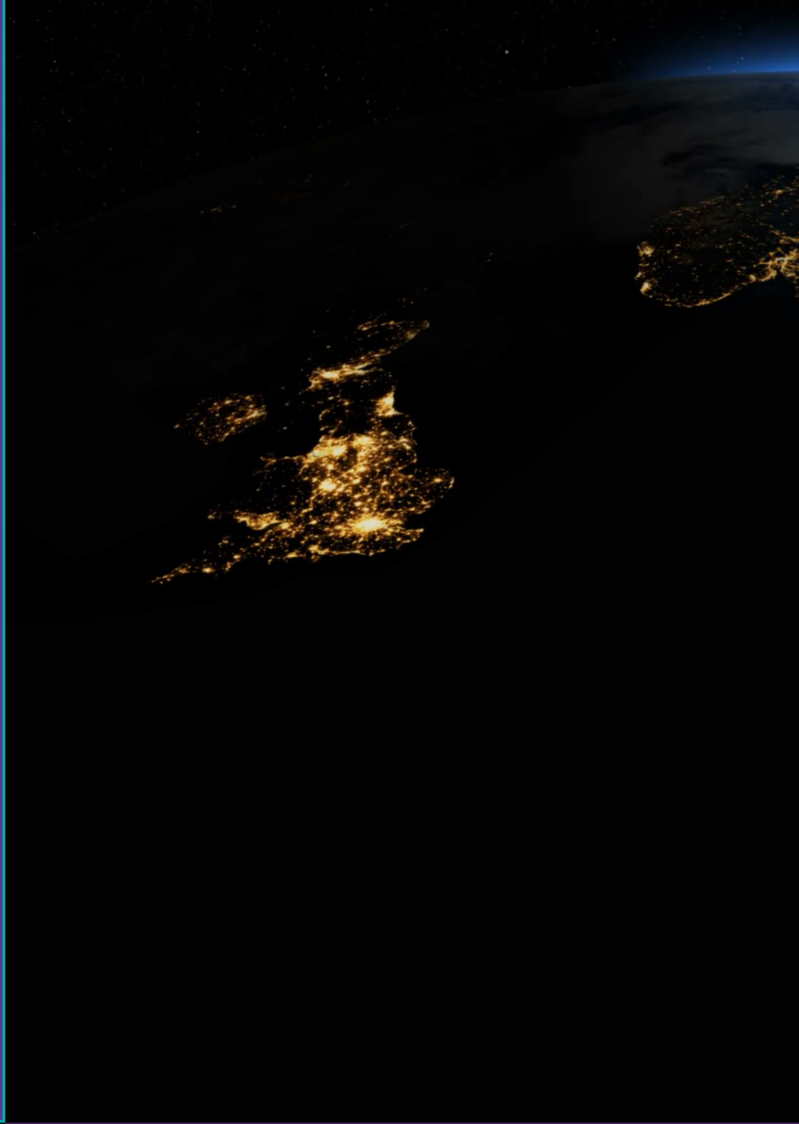
THE GREAT BRITISH REGRESSION

Brexit and Inequality



ESSAY COLLECTION

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About the Authors

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The Centre for Labour and Social Studies (CLASS) is a leading left think tank working to ensure policy is on the side of everyday people. Originating in the trade union movement, CLASS has an authentic connection to working people and a unique insight into the challenges society faces. we combine grassroots voices with intellectually compelling analysis to show an alternative way forward. CLASS works with a coalition of academics, activists and politicians to inspire the left and cement a broad alliance of social forces to support reform, and equip our supporters with the tools to popularise a new agenda.

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Brexit and inequality

In the foreward to this essay collection, CLASS director Dr Faiza Shaheen discusses how Brexit might affect inequality.

Introduction

Brexit has created political chaos on a scale that has not been seen for decades in the UK. Currently the political shenanigans of government occupy our political discourse as we watch to see what happens next. In all the Brexit drama, we are side-lining the very issues that brought us Brexit: regional inequality, the impacts of public spending cuts and the anti-immigration sentiment. It is on these vital issues that this set of essays focus on. We ask what Theresa May's brand of Brexit means for the people of this country and the socio-economic issues that have haunted us for several decades. These essays - from experts looking at wages, regional inequality, gendered impacts, investment and workers rights - are unanimous in the their conclusions that the current path that Theresa May and her government has set us on can only mean more inequality. The good news is that at this point the disaster that this deal presents for workers, the economy and our communities is avoidable. Crucially, our contributors don't see progressive outcomes being delivered directly from a new relationship with Europe no matter the final agreement. Instead we need a combination of staying close to the EU through the single market or frictionless trade and a sizeable injection of state investment in areas left behind.

Brexit: Current state of play

Things are developing quickly, but the withdrawal agreement and the accompanying political declaration as published by the government on 14 November 2018 has given rise to a number of concerns and queries. The focus on ending freedom of movement and the heated discussion around the backstop in contrast with the lack of information on workers' rights suggest that this Conservative government are preparing for a hard Brexit (ultimately leaving the customs union and the single market) as well as one that doesn't protect workers. Both government white papers on Brexit[1] have failed to pay any attention at all to poverty and inequality issues; in fact you would be hard pressed to find even a mention of poverty or inequality within these documents.

Another way to deduce the possible direction of travel is to look to the attitudes of those driving the Brexit car. For example, former head of the British Chambers of Commerce

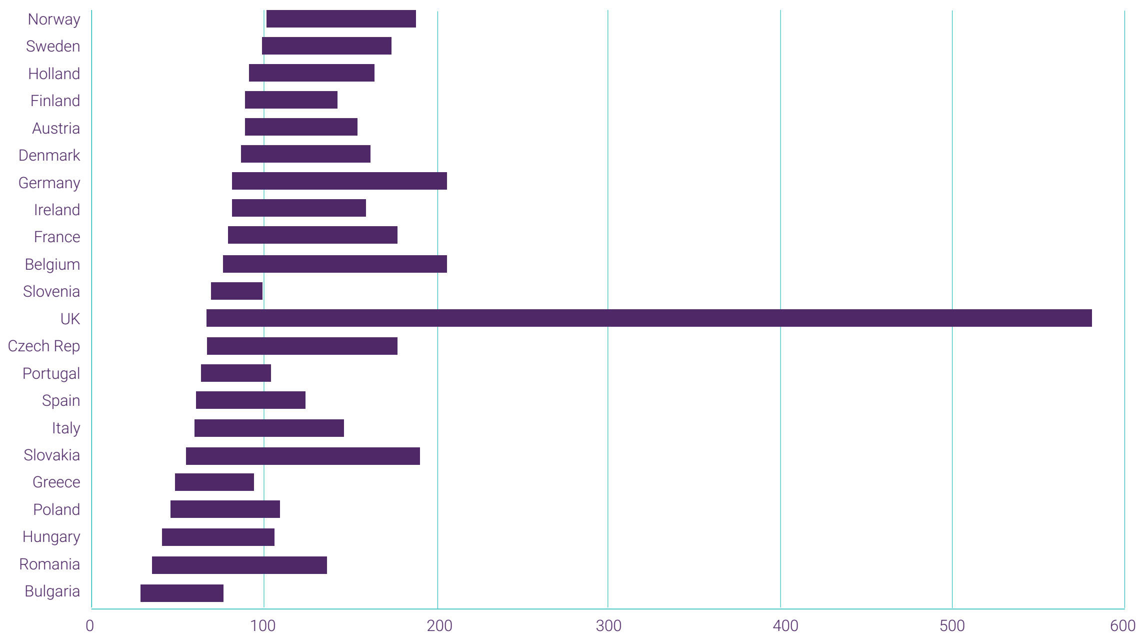
John Longworth, now a co-chair of campaign group Leave Means Leave, has called for changes to working time rules for truck drivers.[2] Additionally, in December 2017, the then Cabinet Minister Boris Johnson as well as the current Minister Michael Gove briefed Sunday newspaper editors that they would be pressing for the Working Time Directive to be scrapped or at least watered down.[3] There is a chorus of Leave advocates and people at the heart of government that see Brexit as an opportunity to lower standards to attract business.

While the political declaration is not legally binding, it does provide an indication to the type of post-Brexit UK this government would like to deliver. Brexit documentation and discussion to date suggest that at best inequality will be an afterthought, and at worse a victim of the Brexit process.

Brexit and inequality: Where we started

There has been a long-term trend of growing economic inequality in the UK. Since the late 1970s we have gone from being one of the least unequal industrialised nations to one of the most. Regional inequalities have ballooned, to the extent to which our economy is one the most geographically lop-sided in Europe (see Figure 1). The financial crisis and the resulting Great Recession has exasperated many of these inequalities. Then came austerity - cuts across frontline services and significant reduction in state injected funds into the economy. The cumulative effect of the Great Recession and then austerity has profoundly damaged the social fabric of the country. The Bank of England's chief economist described the last 10 years as a lost decade for wages, and austerity has been described by the UN as "callous", with huge consequences for the poorest in society.[4]

Figure 1. Regional Inequalities Across Europe



Source: CLASS analysis of Eurostat, GDP at Regional Level, March 2017 release

The Brexit vote came in part as an outcome of the aforementioned inequalities. One study concluded that had it not been for a range of austerity-induced welfare reforms, which activated existing economic grievances, the EU referendum could have resulted in a Remain victory.[5] Many promises were made during the leave campaign, most famously that there would be more investment in public services, specifically to the NHS. It follows then that any draft or final Brexit agreement should be judged in accordance to how much it enables us to tackle inequality and ensure more public investment.

Can May's Brexit help inequality?

All the papers in this series refer to the economic forecasts[6] that show a significant hit to the economy, even with a soft Brexit. Of course, we know that economic growth is no prerequisite to tackling inequality, but as several authors point out, previous declines in economic prosperity have hit the poorest hardest.

All four essays do caveat findings noting that any final impacts are dependent on the style of trade deals going forward; however, as Onaran writes the current fixation on 'free trade deals' do not necessarily convert to progressive stances. Falling consumer standards, a race-to-the-bottom on workers rights and potential opening up of public institutions like the NHS to the market are all very much on the cards in the formation of new trade deals.

Sykes & Schulze-Bäing find that other promises to "take back control" in terms of money does not mean more regional investment. Looking over policy decisions in recent years they find that money paid to the EU, which then came back as regional funding was an affective way to get investment when UK government were unwilling to invest. Given the attitude of the current government to state intervention, there is very little to suggest that if any money is saved from withdrawal from the EU, that it will be used to tackle regional inequalities.

Notably the Conservatives have been happy to sign up to the EU state aid rules in the withdrawal agreement, limiting state intervention. We should also consider that the Conservatives instigated a programme of austerity that has hit the poorest areas hardest. Given these actions, it's fair to say tackling regional inequality is not a priority for this government.[7]

What about the broader investment issues? Onaran provides a broad perspective across private and public investment. She concludes that the economy is and will be further affected through five channels via the effects of Brexit on trade, migration, the depreciation of the pound, public budget, and private investment. She finds the negative impact on investment is the biggest economic risk of Brexit, and all the other channels have negative implications for both private and public investment.

Reed models the impacts on minimum wage in the advent of hard Brexit. This will lead to a race to the bottom on workers rights and conditions in order to attract investment. Weakening or abolishing statutory minimum wage protections in the UK labour market as part of a future post-Brexit trade deal or deals could have serious consequences for low-waged employees in the UK.

Reed concludes that it is entirely possible that hourly wage levels for the lowest paid workers could fall by several pounds an hour. Employees who are female, BAME, part-timers and/or those with few or no qualifications are likely to be the most badly affected. Even a 5 per cent fall in wages could increase the number of employees being paid at minimum wage levels by more than 65 per cent.

Reis of the Women's Budget Group shares that the current withdrawal agreement and political declaration documents being discussed fail to offer any safeguards to mitigate the deepening of income, race and gender-based inequalities. The estimated negative impact that Brexit will have on the UK's economy will likely exacerbate these gendered impacts.

There's another way that Brexit is affecting inequality - that is by sucking up all the policy energy. Brexit has diverted the attention of the press, politicians and civil servants. As such the opportunity cost of negotiating Brexit has come at the direct expense of addressing the burgeoning domestic issues such as the housing crisis, NHS and school cuts as well as other urgent issues such as climate change.

> **"That Theresa May's only one remaining red line is freedom of movement says a lot about how bad our discourse on immigration is"**

On immigration, Onaran points out that a fall in immigration is already causing labour shortages and will have a negative impacts on growth. But the issue here is one of narrative - "immigrant bashing" has been core to political narrative for some time and was prominent during the Brexit debate. As long as we don't make a progressive argument for immigration we are at the mercy of popular misconceptions that lowering immigration will address falling living standards and overstretched public services. That Theresa May's only one remaining red line is freedom of movement says a lot about how bad our discourse on immigration really is.

Damaged democracy and falling trust in politicians both led to the Brexit vote and to the current divisions across the country. Recent revelations that various different Leave campaigns overspent and thus were in breach of electoral law have led some to conclude that the Brexit vote was not fairly won. The lack of trust in politicians and political reporting cannot be taken lightly - when combined with issues of economic inequality and the anti-immigration narrative, one can see it provides a fertile breeding ground for the Far Right. A redistribution of power and voice must be core to any solution, and Reed sensibly recommends that we increase trade union membership going forward.

Brexit and inequality: What now?

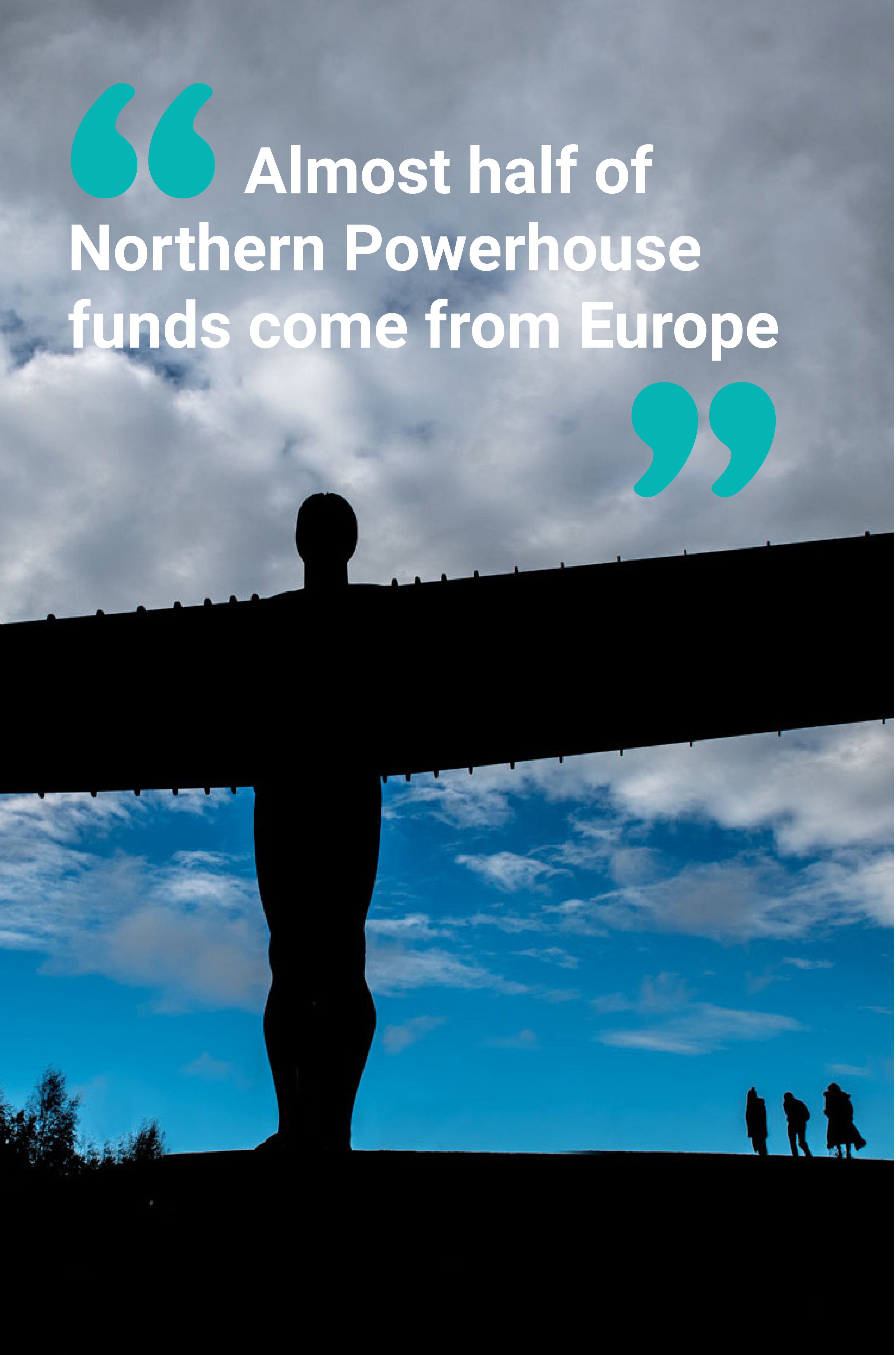
While our current path puts us on a negative trajectory in terms of inequality, that trajectory is not inevitable. If we are to continue with Brexit, our authors recommend targeted investment in specific sectors, including a substantial investment in social infrastructure, and making sure people can adapt to new labour market circumstances through investment in training and services (e.g. housing, childcare, transport). Also we would need a huge regional investment programme and a binding commitment to not just accept current EU workers regulations but to keep pace with any further changes. Such policies can go some way to mitigate Brexit's overall negative impact on the economy, but only if the UK is to remain close to the EU in terms of trade and standards.

Sykes & Schulze-Bäing end their paper laying out the different scenarios going forward and resulting impact on regional investment. For example, if Theresa May fails in her current attempt to push through the withdrawal agreement and the UK follows the example of Switzerland, the Government would embark on a long process of negotiating a complex range of bilateral agreements with the EU. Alternatively, the UK joins Iceland, Liechtenstein and Norway and becomes a full member of the EEA, in this case the regional policy and funding from the EU may continue.

Other scenarios - including on-going uncertainty and political turmoil, a hard Brexit or a no-deal Brexit will mean investment and jobs will undoubtedly be affected. The warning in these papers is stark; Brexit is currently on course to deliver a new round of profound injustice.

Those calling for a second referendum could also learn from findings in this paper. If a public vote is indeed called, remainers must understand that the status quo has failed. Making a positive argument for the EU means talking about a broader set of policy change to tackle falling living standards and inequality.

It's time to come clean - hidden in the political drama unfolding in parliament is a plan which will mean less investment for already left behind areas, and will lead to a race-to-the-bottom on wages and workers' rights, and make the poor poorer. We must urgently change course.



“Almost half of Northern Powerhouse funds come from Europe”

EU Regional Investment Saved UK Neglected Regions – Who Will Save Them After Brexit?

Olivier Sykes and Andreas Schulze-Bäing reflect on the impact of Brexit on regional investment, and wonder if the British government will plug the gap after Brexit.

Introduction

There has been very little in terms of vision for a post-Brexit Britain, in particular no clear objectives around tackling regional inequalities which many interpret as key to the 'leave' vote. It is no surprise then that the Withdrawal Agreement and political declaration currently being discussed fails to provide any policy prescriptions to the UK's huge and growing regional inequalities.

The real challenge now for policymakers and communities in these regions is to try and make sense of what the future holds in a context of great uncertainty about the future of spatially-targeted funding programmes.

How much money did UK regions get from the EU?

The EU's stalwart commitment to supporting measures to support regions experiencing economic and social transformation stood in stark contrast to much of the rhetoric and thinking in UK central government in the 1980s, where in some circles of government there was even talk of "managed decline" for certain major urban areas such as Liverpool.

Whilst national urban policy was increasingly dominated by centralised and competitively allocated UK government initiatives allied with an increased role for the private sector. Whereas EU funding programmes were stepping in to provide more stable opportunities and hope to communities devastated economically and socially by the state's campaign against certain industrial sectors and communities (e.g. initiatives such as 'RECHAR' which provided EU support to communities affected by pit closures).

As the 1990s arrived the shocking truth was revealed that some areas of the UK such as Merseyside and South Yorkshire were now eligible for the highest level of European regional policy support (called 'Objective 1'). This was available to regions whose Gross Domestic Product (GDP) per head was below 75% of the European average – regions normally to be found in the relatively less prosperous countries of the EEC such as Ireland, Greece, Spain or Portugal. The regional consequences of the Thatcher period were stark and could not be masked completely by the wider return to growth of the 1990s.

Though the UK had one of the largest economies in what was now called the EU (after 1993) it also had the largest regional disparities in terms of economic development level. Through the 1990s, EU structural fund support in certain regions such as Merseyside, parts of Wales and Cornwall had significant effects on helping to regenerate the physical environment and ameliorate social conditions.

The symbolic and political value of EU structural funds to some places, and the opportunities they opened-up for empowerment of local decision-makers and communities, should also not be underestimated. Access to EU funding and the European stage enabled some cities and communities to regain the sense of worth and dignity which was stripped from them in the national context in the latter decades of the 20th century. For example, through media and political stereotyping about certain places being welfare dependant failures that were inhabited by benefit scroungers.

Into the 2000s, EU structural funding priorities and programmes dovetailed well with New Labour's national initiatives and objectives such the 'urban renaissance', social inclusion and neighbourhood renewal. As the austerity era of the 2010s arrived, mirroring the 1980s, European Structural and Investment Funds (ESIF) helped to provide funding to the relatively less economically buoyant parts of the UK. The EU's ESIF investments have supported investments in nationally specified priorities such as the Northern Powerhouse rail.

Barely mentioned in the referendum campaign and since were the investments of the European Investment Bank (EIB). In 2015 these came to €7.77 billion, their highest ever level[1] supporting public action in sectors such as energy, water, transport, health, education and housing. In the 2012 – 2016 period EIB had invested €31.3 billion in the UK.[2]

In 2016 the EIB made investments worth €5.5 billion in the UK and invested over £1.3 billion to build and improve social housing via loans to housing associations and the Housing Finance Corporation (investment which continues at the time of writing).[3]

Another important EU funding stream is the strategic investment in transport and communication networks, referred to as TEN-T.[4] In the past this has co-funded in the UK for example the A55 in North Wales and more recently the electrification of a Liverpool-Manchester railway line. Given the concern over a mismatch between infrastructure funding per head between London and the rest of the UK, it remains to be seen what any withdrawal of EU funding will mean for infrastructure investment across the UK. It is worth noting that the spatial strategy underlying the TEN-T with its 9 core network corridors[5] goes beyond the territory of the EU and considers links to Eastern Europe, Asia and in the case of harbours also other global trade links. Will future infrastructure strategy for the UK consider these links, and seek some coordination with other national and EU plans?

Tackling regional inequality post-Brexit

One of the arguments of the Leave campaign was that the money redistributed via EU structural funds was 'only our money that we get back anyway'. In terms of place-based policy then, surely once the UK leaves the EU it will simply be a matter of redistributing such monies to the same regions which had previously benefited from EU support? If only it were that simple. The mechanisms and political trade-offs involved in how any government chooses to spend public monies across the territories under its jurisdiction in truth reflect a complex interaction of national priorities, the success of places in lobbying for their interests, and of course how much there is in in the coffers 'centrally' to allocate. In light of this what might be the future shape of a recast territorial development policy for the UK?

The focus on ending freedom of movement and the heated discussion around the backstop in contrast with the lack of information on public investment and commitment to state aid rules suggest that this Conservative government are preparing for a hard Brexit as well as one that doesn't consider inequality.

Looking to history is instructive here. Unfortunately the reluctance to invest regionally is a long-term trend and previously the EU actually helped to mitigate this laissez faire approach. In the early 2000s when a new EU regional policy was being discussed, many UK local authorities supported the EU Commission's proposal for a larger EU budget than that wanted by the UK government and certain other net contributor states. This was because they knew a larger EU budget would mean greater regeneration funding for their areas. In other words at one of the most prosperous points in the UK's recent economic history the best way for some UK regeneration areas to get a fairer share of UK national resources to spend on improving social, economic and environmental conditions in their areas was to see UK monies routed through the EU. Incredible perhaps; but true nonetheless.

UK government sought to diffuse the situation by offering a guarantee that if the lower budget proposed by the UK and other net contributors states was accepted, that UK territories would not lose out in terms of funding.[6]

Yet this commitment was then withdrawn. More recently, in the allocation of the 2014-2020 structural fund monies the 2010-2015 UK Coalition government departed from the European Commission's suggested spatial distribution of funds by reducing funding allocated to places like Liverpool and Sheffield. Both places were already suffering from swingeing cuts to budgets under the same administration's austerity programme.[7]

One of the immediate concerns following the referendum were the prospects for ongoing and planned projects co-funded by the EU. In August 2016 the new Chancellor of the Exchequer Philip Hammond announced that any EU projects signed-off before the 2016 Autumn statement would be backed, with an assessment to be made later of whether certain other projects would also have their funding guaranteed.[8] This did not reassure representatives of the devolved administrations, or the Local Government Association's Chairman, who all sought more long-term certainty.[9]

On 3rd October 2016 the cut-off point of the autumn statement was extended, so that for example ESIF[10] bidders could continue ongoing talks with the Department for Communities and Local Government even if signed after the autumn statement.[11]

Whilst this provides some short term clarity, there is no clear commitment to whether levels of support comparable to those that areas like Wales and Cornwall would have received from the EU post-2020, will be maintained. The Industrial Strategy Green Paper published in early 2017 did not provide much more clarity simply stating tersely that "We will also carefully consider the future of the European Structural and Investment Funds alongside the wider future funding environment following the UK's exit from the European Union."[12]

What now for regional development?

The future of the UK's relationship with the European Union is unknown. Much will depend on the outcome of the Article 50 exit negotiations, accompanied and followed by many years of negotiations about a future relationship. Regardless of differing views on the purported benefits of leaving the EU, there is a wide recognition that the stakes could not be higher. The opportunity costs of diverting resources and attention from genuine national policy challenges such as the crises in housing,[13] and health services and reflection on important areas of government policy from Higher Education to the environment,[14] will be high and will impact disproportionality on those places and communities who can least afford to bear them. Despite the enduring uncertainties around the prospects for place-based policies, the following five scenarios are an attempt to summarise possible outcomes of the negotiation for territorial development:

Scenario 1: Negotiations between the EU and the UK fail, and so the UK leaves the EU without a trade deal. Any form of regional policy may need to be replaced by domestic funding arrangements. UK territories will be at the mercy of domestic trade-offs and politically expedient 'sweetheart deals' with particular places[15] and sectors.[16]

Commenting on the draft Industrial Strategy the Commons Select Committee on Business, Energy and Industrial Strategy has already has already recommended that "the Government steps back from its current trajectory of focussing on sectoral 'deals' which risk a return to the discredited credo of 'picking winners'.[17]

Scenario 2: The UK leaves the common market, but remains, possibly partly, in the customs union. Regional policy in the UK will most likely stop in this scenario, though one could imagine a coordination of infrastructure network planning. More widely, as with Scenario 1, UK territories' territorial funding may be subject to domestic trade-offs.

Scenario 3: Theresa May fails in her current attempt to push through the Withdrawal Agreement and the UK follows the example of Switzerland and negotiates a complex range of bilateral agreements with the EU. In practice this can be very similar to a full EEA membership and would include being part of the EU's single market. If the UK follows the model of Switzerland, this may involve accepting freedom of movement. This may also include a continuing contribution to the EU's regional policy and TEN-T programmes and may mean a continuation of regional funding in the UK, though it would not include a participation in the Common Agricultural Policy.

Scenario 4: Theresa May fails in her current attempt to push through the Withdrawal Agreement and the UK joins Iceland, Liechtenstein and Norway and becomes a full member of the EEA. This would be similar to Scenario 3, though the EEA is governed by an EEA council. Regional policy and TEN-T funding may continue under this arrangement. UK territories may still be able to benefit from EU-style integrated territorial funding packages and transparent mechanisms for territorial redistribution of resources.

Scenario 5: There is a second referendum and the UK remains part of the EU. UK territories will be able to benefit fully from participation in the next round of EU territorial development policy and have full access to relevant ESIF funds.

Putting aside the political turmoil, the current political intention of the UK government would seem to suggest that Scenario 2 is the most likely outcome. Over the years of lengthy negotiations which will be required to develop this, the UK might then move more towards Scenario 3 following the Swiss example. But one should not rule out the other scenarios as both the UK's and the EU's politics can change.

Conclusion

In February 2017 the Northern Powerhouse Investment Fund (NPIF), was launched with the aim of "boosting the North of England's economy and helping the region's businesses realise their growth potential". Interestingly of the £400m being made available £184 million was provided by the European Investment Bank - a fact few Britons are likely to see communicated in their media.[18] It also underlines the stark reality that empty slogans such as a post-Brexit economy that "works for everyone"[19] (Theresa May, Conservative Party), or "'Labour Brexit' that works for everyone"[20] (Jeremy Corbyn, Labour Party) and non sequiturs such as 'a Brexit that works for all of us' will not replace the committed decades-long support of the EU to Britain's development areas and regions. Since the 1970s the EU has supported Britain's regeneration regions and communities. The question is who will replace it in the future if Brexit does indeed to mean (hard) Brexit?

“As real wages fall this drags down investment in industries such as housing”

The impact of Brexit on private investment and public spending

How will a hard Brexit impact on investment and competitiveness? Professor Özlem Onaran looks at the evidence, and calls for a new industrial strategy to combat the worst effects.

Introduction

In this chapter we discuss the expected economic effects of Brexit on private and public investment.

The economy will be affected through five channels via the effects of Brexit on trade, migration, the depreciation of the pound, public budget, and private investment (Onaran, 2017). While the impact on trade is perceived in the public debate as the most important negative effect, the negative impact on investment is the biggest economic risk of Brexit, and all the other channels have crucial implications for both private and public investment.

1 Private investment: developments after the Referendum prior to Brexit

Uncertainty about the future of access to the single market and migrant labour force as well as political risks have already started to hit private investment plans and is likely to have further negative impacts on investment in the future. Although the government has announced a 21 month transition period, there is still a lack of clarity about the terms of a transition deal and what form the UK's future relationship with the EU might take. The current consensus on a transition deal it is that is also a political agreement. The fact remains that nothing is agreed until everything is agreed, and terms could change. This uncertainty has encouraged businesses to hold on to their investment plans even before Brexit, and this will have long term impact on productivity, irrespective of the final result.

Business investment remained flat in the last quarter of 2017 compared to the third quarter (ONS, 2018). Business investment growth has been relatively subdued for more than two years, with its level as of mid-2018 just 0.2 per cent higher than mid-2016. This equates to billions of pounds of foregone investment had investment grown at its rate prior to the referendum. Investment in transport equipment even declined by 7.1% in 2017 compared to last year (ONS, 2018).

The Bank of England (2018) notes that Brexit-related uncertainties and expectations around lower future sales are weighing on business investment growth, and business investment is forecast to be 3-4 per cent lower in June 2017 than it would have otherwise been. Private firms are also likely to lose their access to the European Investment Bank (EIB) loans, or at best the amount of these loans will decrease, which will further have a negative impact on investment.

1.1 The impact on investment via the depreciation channel

The substantial fall in the value of the pound is a double edge sword in terms of its effects. A depreciation of the pound will have sadly little impact on the trade balance. Although depreciation makes exports more competitive, imports become more expensive. With UK manufacturing being largely reliant on importing raw and intermediate inputs, this curbs export competitiveness as well. Even if the net effect of depreciation on exports may be slightly positive, this is unlikely to lead to a rise in investment in the export industry given the drag by higher uncertainty about the future of access to the single market. Without investment the overall impact of depreciation on competitiveness is low.

The other negative impact of depreciation on a highly import dependent country like the UK is that it will lead to inflation. The current slow increase in inflation is not a cause for celebration, but rather a reflection of firms' hesitance to pass rising import costs to prices in an environment of uncertainty and low demand. As real wages have continued to fall in 2017, this drags down investment in domestic oriented industries such as housing.

1.2 The impact on investment via the trade channel

The final magnitude of the effects on private investment depends on the type of post-Brexit relationship with the EU as well as the length and terms of a transition deal.

The EU accounts for 44% of UK exports and more than half of UK imports. The effect of Brexit on private investment is likely to be minimal, if access to the single market and membership of a Customs Union is maintained. In the case of the government's current preferred option of a comprehensive free trade deal with the EU, there will be significant negative effects on private investment. The hope of offsetting the impact of loss in exports to the EU via free trade agreements with non-EU countries is wishful thinking, as distance matters for trade, in services and manufacturing.

Furthermore, new free trade agreements may also lead to a decline in demand for British businesses as imports replace domestic production. Different from the effect of continuing both exports to and imports from the EU, new imports from new partners may replace some domestic production, and net effect on private investment may be negative.

1.3 The impact on investment via the migration channel

If the government prioritises substantial migration controls, the effects of this on private investment will be largely negative. Across very diverse professions ranging from health and social care, to science, engineering, food, agriculture, or retail, firms are worried that they may experience labour shortages.

Understandably this is a delicate matter for the progressives. Sadly, most of the debate about migration is taking place either from either a business investment perspective or a political perspective based on the popular perception of the impact of migration on inequality. Rising inequality was a strong concern for people who voted for Brexit, and the common wisdom sees migration as highly linked to rising inequality. Recent research (Onaran and Guschanski, 2016; Guschanski and Onaran 2016) shows that migration has not been a cause of rising inequality, and it does not have a negative impact on either the share of wages in total income or real wages even in the service sectors predominantly hiring low-skilled labour, which also employ a large share of migrants.

Unfortunately the progressive debate on investment and migration is taking place without any reference to a progressive approach to trade. In principle free trade as such without conditions is not what progressives praise. Now that our trade with Europe has been liberalised over decades, jobs here depend on trade so we need to maintain access to the single market. But then we also need to avoid asymmetry with labour mobility. Migrants are visible to the people, but imports or relocating firms also cause job losses, however this is less visible than migrants. The problem is not labour mobility but uncontrolled capital mobility. The asymmetry between the options and power of labour and capital, exploitative employers, unorganised migrants as well as local workers, and lack of public spending in infrastructure to mitigate the impact of rising population.

If the balance of power shifts in favour of labour and if unions have a strong voice, subsequently when migrants enter Britain to work, it is possible to set the terms and conditions under which they work (Onaran and Guschanski, 2016). Conversely, if migrants will not be allowed to come, private businesses will go to where cheap labour is available in the current situation free with capital mobility and low wages elsewhere in Eastern Europe and the world. It is a lot harder to set the conditions of work abroad to avoid a global race to the bottom in wages than organizing both local and migrant workers at home.

2 Public sector budget and public spending in services and investment

Office of Budget Responsibility (OBR) recently set out the details of the Brexit bill the Government agreed to pay in the EU withdrawal bill in December 2017. OBR estimates that about 75 per cent of the financial settlement bill of £37bn will be paid by 2022, and by 2022-23 the government will be paying £5.8bn less to the EU compared to what it is paying before Brexit (The Guardian, 14 March 2018).

However, OBR also note that savings to the budget will be more than offset by spending pledges for maintaining farm subsidies and continuing payments to the EU to maintain access, to some key EU institutions; consequently OBR warns that the economic effects of Brexit would probably outweigh the reduced contributions to the budget (The Guardian, 14 March 2018).

Permanent access to the single market in the event of a soft Brexit or a longer transitionary access until a new trade deal can be agreed with the EU will require substantial continuity of the UK contributions to the EU budget.

Another important effect on the budget will be via migration. A substantial fall in migration is a big risk in our ageing society. If migration falls following Brexit, we will have a large increase in the government's budget deficit as migrants are net contributors to the budget.

Improvements to the budget via cancelling the contribution to the EU budget in the event of a hard Brexit will be small and are likely to be dwarfed by effects on growth and tax revenues.

Given the government's track record about their policy of managing the deficit so far, it is likely that the poor, women, and disabled will be hit hardest via further cuts to benefits. This alone will dwarf any benefit to low paid workers that they might expect from lower immigration.

There is a progressive assumption that one silver lining in Brexit is that it may facilitate public provision of services and state aid to ailing sectors. This is a simplification and a clarification is required: the EU does not automatically rule out the use of state aid, renationalisation of the railways or public ownership more broadly, and currently the UK spends only 0.36% of GDP in 2017 in state aid, while German spends 1.31% of its GDP (Cooper, Kaldor, Milanese, Palmer, 2018).

3 A Brexit that minimizes damage

Brexit has left Britain with a very uncertain future and it is not the best starting point for progressive transformation. The potential effects make it likely that there is not much of a silver lining in Brexit from a progressive point of view, and the best we can achieve is damage minimisation. The final section concludes with measures to minimise this damage.

There is huge potential for Brexit to undermine investment, but there are steps that can be taken to mitigate the worst impacts. Moving forward, two conditions regarding the transition phase are crucial to minimise damage:

1. A transition period longer than 2 years to give the chance for a meaningful parliamentary debate and vote on the final deal, once the conditions are known;
2. A transition deal that is as close as possible to the current situation to minimise costs of multiple changes for the economy, i.e. remaining a member of the Single Market and the Customs Union in the transition phase.

Also a final Brexit deal that minimizes damage for investment, public services, jobs and working people would require minimum distortion to the relationship with Europe. This requires negotiating membership to a customs union as well as access to the single market via the European Economic Area (EEA). This is a similar position to Norway who has access to the single market as an EEA member; however Norway is not a member of a customs union. This option would involve the UK to comply with the Single Market regulations, and implementing new ones, despite being unable to influence their content, free movement of people and continue to make some contributions to the European Union budget.

We also need an element of realism. Our partners in the EU, including the progressives, will not split four freedoms of movement of goods, services, capital and people, where lorries and hedge funds are free to cross borders but citizens are not. They will also not split movement within one freedom such as free movement of cars but not for some other goods. A sector specific customs union is highly unlikely.

If post-Brexit Britain is to deliver for the working people and address the concerns of those who voted for Brexit, it has to be accompanied by an appropriate policy mix combining industrial policy, fiscal policy, labour market policy and international trade policy with complementary and consistent aims.

Industrial policy has to aim at multiple targets of creating decent jobs with decent incomes, a sustainable and equitable economy, and decreasing dependence on imports. A substantial public investment programme linked to industrial policy targets need to ensure adequate supply of health, education, child care, social care, and housing. This serves to ensure that the benefits of being part of the single market are equally shared across the country and any pressure on public services due to the rise in population due to migration is mitigated.

Labour standards and protection for workers and the environment should also be at the core of any international trade agreements. Similarly any deals for Foreign Direct Investment inflows should come with terms and conditions consistent with industrial policy priorities, e.g. negotiating for joint ventures and minimum local content, and labour standards. This is a very different attitude of globalisation compared to the investor dispute schemes, which are aimed at protecting the multinational corporations against the public and workers.

Labour market regulation and new legislation to strengthen the trade unions to level the playing field is the key to manage globalisation in a way that it delivers for all working people. This requires redefining corporate governance to increase the voice of trade unions and have full collective bargaining coverage including those with non-standard working times, as well as ending zero hours contracts and making sure that all employees, migrant or native, have contracts with guaranteed minimum hours, plus ending practices of employing dependent employees as self-employed, and ensuring equal rights for all workers including the migrants.

These measures will put an end to conditions of work that give rise to a perception of native workers being undercut by migrant workers, as in reality it is the unchecked employers in a neoliberal labour market and not the migrants who erode working conditions.

As a negotiating point with the EU, the UK could ask to link migration to job offers (and family union), which implies accepting mobility of labour rather than people, but it is absolutely crucial that once migrants are in the country, they have the same rights as native workers. If they lose their job with a permanent (non-fixed term) contract, they should be able to stay and look for another job for a period proportionate to the duration of their employment in the UK up to that point without their continued residence being tied to their employer's will. Anything short of this will lower the bargaining power of the migrants and increase the likelihood of pressure on the working conditions of the locals as well.

> **Food price rises will have a gendered impact because women are more likely to be poor and have responsibility for the purchase of food**

The Economic Impact of Brexit on Low Income Women

Dr Sara Reis writes that Brexit will hurt industries that employ more women, and that rising food prices will also have a negative gender impact.

Introduction

The current withdrawal agreement and political declaration documents being discussed fail to offer any safeguards to mitigate the deepening of income, race and gender-based inequalities. We are particularly concerned because the most economically vulnerable people have borne the brunt of the government's austerity policies since 2010. This is especially true of women: BME low-income women and disabled women in particular have been disproportionately affected by cuts in public sector spending and benefits. The negative impact that Brexit will have on the UK's economy – now estimated by the government to be a GDP lower between 1.4% and 9.3% by 2030 – will likely exacerbate the financial plight of disadvantaged women and throw more people into poverty if the government remains on the current austerity policy course.

However, that course is not inevitable: targeted investment in specific sectors, including a substantial investment in social infrastructure, and making sure people can adapt to new labour market circumstances through investment in training and services (e.g. housing, childcare, transport) can go some way to mitigate Brexit's overall negative impact on the economy.

Despite a lack of certainty about the UK's post-Brexit trade relationships, there is a consensus among economists that Brexit will have a very negative impact on the UK's economy as a whole. The worse predictions are forecasted for the event of the UK crashing out of the EU without any deal; the least bleak outcome would be in the event that the UK retains membership of the European Economic Area and the Customs Union. It's worth noting that the current government commitments on ending freedom of movement and coming out of the customs union does indeed put us on course to substantial negative impacts.

- GDP 1.4% and 6.7% lower by 2030 in the event of a Brexit deal, and lower between 4.9% and 6.7% in the event of a no-deal Brexit (UK Treasury post Theresa May Deal);[1]
- GDP 6.3% to 9.5% lower by 2030 (LSE Centre for Economic performance);[2]
- GDP 3% to 5.5% lower by 2020 and 1.2% to 3.5% lower by 2030 (Price Waterhouse Coopers);[3]
- GDP 1.5% to 7.8% lower by 2030 (National Institute of Economic and Social research).[4]

Brexit and the future UK relationship with the EU, whichever form it takes, will have gendered impacts on employment, on consumption and on the provision of public services. In the next section we will go into detail for each of these dimensions.

Brexit and women as workers

In the short term, predictions that increased uncertainty as a result of Brexit would lead to slower growth and a squeeze on wages[5] appear to have been borne out. In March 2018 the Office for Budget Responsibility projected that GDP would grow by only 1.4% annually over the next five years in part as a result of Brexit.[6] Low wage growth and increased inflation led to a real-terms fall in average full-time wages of 0.4% in 2017.[7] Earnings in 2017 (adjusted for inflation) are at a similar level to 2011, meaning that in real terms there has been no wage growth.[8]

Increased barriers to trade with the EU will hit sectors that rely heavily on exports to it and the industries that supply them, as well as those sectors that rely on EU imports. The impact will vary across the country, with the north of England and Wales relying more heavily on EU exports (61% of all exports in this region) than the national average (49%). Many sectors that export the most to the EU are male-dominated, like mining and quarrying (84% of workers are men). But others like financial services (44% women workers) and some sectors within manufacturing such as textiles (55% women workers) employ a large proportion of women. Important to note also that sectors relying on imports from the EU are likely to be affected by increased costs. Depending on how the industry and employers adapt, workers may face lay-offs or worsening of working conditions and pay.

Much of the legislation protecting equality and workplace rights that women benefit from originated in, or was strengthened through, the EU. Although this is being incorporated into UK law through the European Union (Withdrawal) Bill, it is vulnerable to change by a future government. Health and social care are heavily female-dominated sectors (77% of workers in the health sector and 80% in social care are women),[9] and these sectors employ a large number of low-skilled, low-paid and casual workers. These workers may be most at risk of a post-Brexit gradual eroding of employment standards, for example employment protection and minimum wage regulations.[10]

In the longer term, depending on what new trade relationships are set up, Brexit may also create opportunities. However, in general these will more likely benefit people with more resources to adapt. Men as a group tend to possess more of these resources – savings, transferable skills and mobility[11] – than women. Women also tend to shoulder the burden of unpaid care responsibilities and this greatly reduces their capacity to adjust their hours, travel further or move to another area to find jobs. Gendered employment effects of the new trade agreements are therefore likely. This was the case with NAFTA – the North American Free Trade Agreement – after which many of the most disadvantaged workers were unable to find work.[12] This signals the need for the government to plan to support different groups of workers, particularly the ones in sectors more likely to be affected by Brexit to acquire the skills and resources needed to adapt to changes in the labour market and to get support for caring responsibilities.

Brexit and women as consumers

Currently, around 30% of the value of food purchased in the UK is imported and 70% of gross food imports are from the EU. If tariffs on food from the EU apply, combined with a falling value of the pound, will have a substantial impact on the prices households pay for food. The poorest households would be hardest hit by rising food prices: 23% of the poorest tenth of households' expenditure is on food, compared to the richest tenth who spend 10%.[13] Food may also decrease in quality if new trade deals with non-EU countries require current regulations on quality standards to be weakened. This will disproportionately affect women, who are more likely than men to be poor and who tend to have main responsibility for the purchase and preparation of food for their children and families,[14] and for the management of budgets of poor households.[15]

USDAW has calculated that the combination of increased tariffs under WTO rules and a fall in the value of the pound could cost average households in the UK £580 per year, the effects of which will be felt most severely by the poorest households.[16] A report from the LSE puts the average decline in household income after Brexit at between £850 and £6,400 per year.[17] Women are the main managers of family poverty and the shock-absorbers of poverty, and in attempting to shield their families from poverty's worst effects women tend to bear the brunt of the effects.[18]

Brexit and women as public service users

As WBG and others have repeatedly shown, public services and associated social infrastructure are relied upon more by women than by men.[19] Reductions in public spending have a disproportionate negative impact on women as the primary users of public services, the majority of workers in the public sector and the main providers of unpaid work when public services are cut.

Despite the rhetoric of some from the 'Leave' camp during the referendum campaign, Brexit is very unlikely to result in spare money to spend on public services such as the NHS. This is because any savings on the UK's net contribution[20] to the EU – around £8bn a year, 0.4% of GDP – is more than likely to be wiped out if leaving the EU causes even a small fall in GDP. Analysis by the IFS forecasts that the projected budget deficit in 2019-20 as a result of the economic impacts of Brexit will be an additional £20-40 billion.[21] If the Government decides to institute fiscal consolidation policies in response to the declining revenue resulting from a fall in GDP, cuts in public spending will widen inequalities between women and men.

Black and minority ethnic (BME) women are even more likely than white women to be in a socio-economic position that makes them vulnerable to cuts in benefits and public services. Research by WBG and Runnymede has shown that, since austerity measures were introduced in 2010, among the poorest 20% of households, black and Asian households have seen their living standards fall by 11.6% and 11.2% respectively, while the living standards of white households in this group fell by 8.9%.[22] EHRC research has shown that households with disabled children will lose £3,908 in real terms every year by 2021-22 and households with disabled children and disabled adults will lose £6,513 each year for the same period.[23]

Austerity measures have also reduced local authority funding, with a disproportionate effect on women's voluntary and community organisations, particularly those supporting BME women.[24] Local authority spending on services that enable men and women to go to work has also suffered[25] as a result of government cutbacks – these may increase after Brexit at the same time as EU sources of funding for infrastructure projects are removed.

A number of services traditionally provided by the public sector are now increasingly subject to competition from foreign companies and globally recent trade agreements have restricted governments' ability to regulate in the public interest.[26] A weakened negotiating hand for the UK as a result of Brexit could lead to new trade agreements in which regulations designed to protect the quality of public services are challenged as a trade barrier. Meanwhile, the quality of public services, particularly the NHS, is additionally under strain from the potential loss of EU workers who may decide, or be forced to, leave the UK post Brexit. The quality of public services is a gendered issue, as women are more likely to use them, for themselves or for people for whom they have caring commitments, and to shoulder the burden of care responsibilities when services are cut down.

Recommendations for policies to mitigate the impact of Brexit on low-income women

Womens Budget Group believes that there is strong evidence that the overall impact of Brexit on UK GDP will be negative and that a no-deal Brexit would be the most damaging. The current withdrawal agreement buys time, but brings its own uncertainties given the lack of commitment to a customs union and to workers rights. Unless the government changes course, this could have serious implications for women as workers, consumers and as users of public services.

The UK government's failure to prioritise gender equality in its actions since the crisis of 2008, notably in its focus upon austerity, has resulted in policy that has increased economic insecurity, especially for women, and even more so for the most vulnerable women have been hardest hit by austerity. Further stresses upon public spending, if Government reacts in a similar way, will deepen gender inequalities.

It doesn't have to be this way. There should be a recognition that Brexit will impact different groups of people differently, depending on their resources, skills and position in society. Government should make sure that there are contingency plans to support people – in particular people from disadvantaged backgrounds and in vulnerable socio-economic positions – to adapt to the changes and opportunities that Brexit may bring. This includes appropriate training to make sure workers' skills are transferable and adaptable. Also investment in infrastructure (e.g. transport, childcare, housing) that creates direct employment and makes sure people have the necessary flexibility to take advantage of any opportunities in the labour market. Such policies are the ones that the WBG has been advocating for years. Brexit makes these policies more urgently necessary, in order to mitigate the negative impact it is forecast to have on the economy and on people's lives, particularly on the most disadvantaged women.

Women undertake most of the unpaid care work including domestic chores and taking care of dependent children, elder relatives and disabled people. These care commitments place an undue burden on women's ability to progress in their careers, be financially independent and take up well-paid quality jobs. The Women's Budget Group has long advocated for a large investment in social infrastructure, in services that allow people to receive the high-quality care they need and deserve. This means investing in more nursery places, more services for disabled people and more adult social care services. Research from the WBG has estimated that investing 2% of GDP in such social infrastructure would create 1.5 million jobs (compared to 750,000 for an equivalent investment in construction), with almost as many jobs created for men as investing in construction industries and up to four times as many jobs for women. Investing in care industries is more effective in reducing public deficits and debt than austerity policies and it would boost employment, earnings, economic growth and foster gender equality.[27]

Investing in the care economy and high-quality public services, making sure that different groups of people are able to adapt to a post-Brexit labour market and maintaining high standards of consumer and worker protection are some of the recommendations from the Women's Budget Group to ensure that the UK's post-Brexit economy does not impact particularly badly on women and other vulnerable groups. These are recommendations for policies that should happen regardless of Brexit, but they are now more urgently needed in order to mitigate some of the worst predicted effects of Brexit on women.

“Post-Brexit trade deals could have serious consequences for low-waged employees”

Brexit: a 'race to the bottom' for those on low wages?

Economist Howard Reed analyses how a hard Brexit will push many more workers down to the minimum wage.

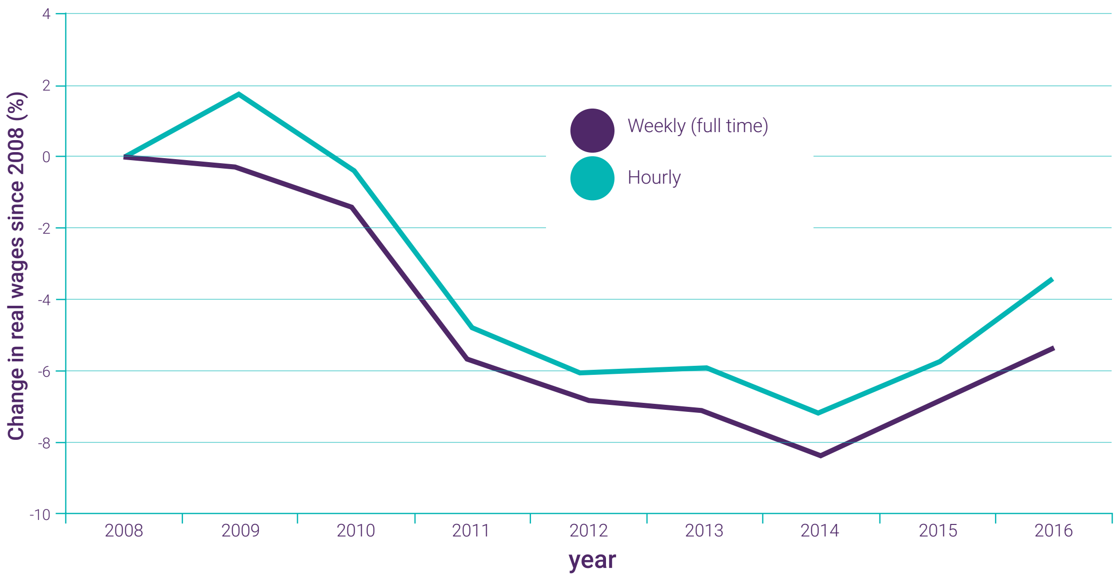
Introduction

One of the biggest fears to emerge in the wake of the referendum vote to leave the EU in June 2016 is that much of the labour market regulations protecting workers will be watered down or scrapped after Britain leaves the EU ("Brexit") as the UK Government scrambles for trade deals with trading partners such as the USA under President Trump's leadership.

Although the National Minimum Wage (National Living Wage for employees aged 25 and over, henceforth referred to as NMW/NLW) is not a piece of legislation introduced as a result of Britain's membership of the EU, it is entirely possible that NMW/NLW might be weakened, or in the worst case scrapped entirely. This would serve as an attempt to increase Britain's "competitiveness" by slashing labour costs. Pressure for deregulation of the labour market – including weakening of minimum wage legislation – is particularly likely to emerge in the event of a 'no-deal' Brexit, which is the default outcome on 29 March 2019 if the deal that has been negotiated between the UK Government and the EU fails to get through Parliament. The most recent set of Treasury forecasts for the economic impact of leaving the EU, published by the UK Government in November 2018,[1] suggests that average wages would fall by 10 per cent and GDP by around 7.5 per cent in the event of a no-deal Brexit, with smaller falls in the event of a negotiated deal. Previous forecasts by other leading macroeconomic forecasters (e.g. LSE Centre for Economic Performance)[2] have produced results of similar magnitude.

There is a precedent for a substantial fall in wages following a negative shock to output. In the 2008-09 recession, UK GDP fell by over 6 per cent in real terms.[3] Figure 1 shows the decline in average hourly wages, and average weekly wages for full-time workers, in the UK in the years following 2008, using data from the Annual Survey of Hours and Earnings. Between 2008 and 2014, real weekly wages fell by about 8 per cent, and real hourly wages by about 7 per cent – approximately in line with the fall in GDP in the 2008-09 recession (although the fall in GDP happened a lot faster, with a slow recovery beginning in late 2009). Thus, it does not seem unreasonable to suggest that average wages might fall approximately in line with the decline in real GDP as a result of leaving the EU. Indeed, the recent Treasury analysis suggests that the percentage decline in wages will be slightly larger than the fall in GDP.

Figure 1. Change in UK real weekly wages (for full-time employees) and hourly wages (for all employees), 2008-17



Source: Annual Survey of Hours and Earnings, 2008-2017.

This chapter contains three pieces of empirical evidence on the extent to which a 'hard Brexit' (a scenario where Britain leaves the EU without remaining a member of the EU single market – the extreme version of which is a no-deal Brexit), combined with weakening or abolition of Britain's minimum wage legislation, could affect low-waged employees.

The analyses are as follows:

1. Using data from the UK Labour Force Survey combined with previous research from the Low Pay Commission, I estimate the number of employees who are currently on the National Minimum Wage/National Living Wage, and the number who would be receiving it if wage levels fell in line with a decline in Gross Domestic Product after leaving the EU.
2. I look at the characteristics of employees in jobs paying at minimum wage levels, both currently and after a 'hard Brexit', and also the characteristics of the jobs themselves, to see which types of workers might be most affected by Brexit in the event of NMW/NLW being weakened or scrapped.
3. To establish a benchmark figure for how far hourly wages might fall in the absence of NMW/NLW, I use data from the UK Family Resources Survey to compare hourly remuneration for employees and self-employed people (who are not subject to minimum wage legislation).

1 The number of employees currently receiving the National Minimum Wage/ National Living Wage, and the potential impact of Brexit

The most recent annual report from the Low Pay Commission (LPC)[4] estimates that at the rates introduced in April 2018, approximately 1.6 million employees aged 25 or over (around 6.5 per cent of all employees aged 25 or over) receive the NLW. Meanwhile a further 200,000 receive the rates for 21-24 year olds or 18-20 year olds. Overall the coverage of the various rates is around 9 per cent for per cent for employees aged 18-20, and around 11.5 per cent for 16-17 year olds. The rates at the time of writing (April 2018) are as follows:

- National Living Wage (aged 25 and over): £7.83/hour.
- National Minimum Wage (aged 21-24): £7.38/hour.
- National Minimum Wage (aged 18-20): £5.90/hour.
- National Minimum Wage (aged 16-17): £4.20/hour.

The Labour Force Survey (LFS) is a quarterly household survey which interviews around 35,000 employees every three months. Using the hourly pay variable (HRRATE) in the Labour Force Survey for the summer, autumn and winter of 2017 (the most recent data available at the time of writing), I estimated the number of employees paid at (or below)[5] NMW/NLW at the rates in force in April 2017. The grossed-up estimate for the number of employees receiving NMW/NLW was around 1.9 million – very similar to the LPC estimate.

Next, I simulated the impact on wages of a fall in UK Gross Domestic Product arising from Brexit. As explained earlier, the recent analysis by HM Treasury estimates that average wages will fall by 10 per cent in the event of a no-deal Brexit, with a smaller fall in the event of a deal.[6]

Therefore, I have chosen to use two impact forecasts in this paper, corresponding to 'lesser' and 'greater' impacts of leaving the EU:

a) a fall of 5% in hourly wages;
b) a fall of 10% in hourly wages.

I model the impact of Brexit on wages very crudely by assuming a 5 per cent fall in real hourly wages across the whole UK economy (in scenario a), and a 10 per cent fall (in scenario b). In reality the impact on the wage distribution is likely to be more complex than this but an across-the-board fall represents a simple benchmark case. The fall in hourly wages means that the coverage of the NMW/NLW will increase, as a significantly greater number of workers now have their wages 'propped up' at the minimum. With a 10% fall in wages, the number of employees covered by the NMW/NLW increases from 1.9 million to 3.8 million –a doubling of coverage, from 7 per cent of employees to 14 per cent of employees. With a 5% fall in wages, coverage increases to 2.6 million workers – around 10 percent of employees. In other words, at current levels of the NMW/NLW, Brexit is likely to result in a substantial increase in the number of employees paid at minimum wage levels.

Accordingly, this means that far more people are vulnerable to weakening or abolition of the NMW/NLW as part of a potential "race to the bottom" on labour market standards.

2 Characteristics of minimum wage workers and jobs

Using the same Labour Force Survey data as above, Table 1 below analyses the proportion of employees broken down by various categories (gender, ethnicity, highest qualification, full-time/part-time, industry, occupation) who are earning at the level of the National Minimum Wage/National Living Wage. The left-hand column shows the actual proportions in the LFS data, while the middle column forecasts the numbers earning NLW/NMW with an assumed post-Brexit fall in wages of 5 per cent, and the right-hand column forecasts coverage after a post-Brexit fall of 10 per cent. The top row of Table 1 – "whole sample" – repeats the overall coverage statistics from Section 1 above.

Looking across the employee breakdowns, the following categories of worker are significantly more likely than average to be paid at minimum wage rates:

- Women;
- Black and Asian employees (except for Indian and Chinese employees);
- Employees with highest qualification GCSE or "other", or no qualifications;
- Part-time workers;
- Employees in the following industries: wholesale and retail trade, accommodation and food services, administrative and support services, arts, entertainment and recreation, and other service activities;
- Employees in caring, leisure and other service occupations, sales and customer services, process, plant and machine operatives, and elementary occupations.

Simulating a 5% or 10% hourly wage fall after Brexit leads to much the same pattern of characteristics for low pay, although in the case of the health and social work sector, this has a lower-than-average incidence of minimum wage pay with hourly wages at their current level, but if wages fell by 10% then the incidence of minimum wage pay would be above average.

Table 1. Proportion of employees paid at National Minimum Wage / National Living Wage rates: Actual 2017 data and post-Brexit estimate

Category	% of employees paid at NMW / NLW		
		If wages fall post-Brexit:	
	Actual 2017	5% fall	10% fall
Whole sample	**6.9**	**9.7**	**14.0**
Gender:			
Male	4.7	6.6	9.6
Female	9.3	13.0	18.5
Ethnicity:			
White	6.7	9.5	13.8
Mixed/multiple ethnic groups	7.4	8.3	12.7
Indian	5.4	7.6	10.8
Pakistani	11.7	15.4	20.1
Bangladeshi	19.2	22.4	31.7
Chinese	3.7	4.7	7.5
Any other Asian background	7.9	13.0	19.6
Black/African/Caribbean/Black British	9.5	12.6	17.5
Other ethnic group	10.8	13.6	16.5
Qualifications:			
Degree or equivalent	2.0	2.8	4.5
Other higher education	4.3	6.5	10.3
A Level or equivalent	7.3	10.5	15.6
GCSE Grades A*-C or equivalent	10.4	14.4	20.8
Other qualification	14.4	19.9	25.9
No qualification	20.8	28.1	36.2
Full time/ part-time jobs:			
Full time	3.8	5.5	8.4
Part time	16.0	21.8	30.2
Industry:			
Agriculture, forestry and fishing	7.6	11.1	11.9
Mining and quarrying	0.0	0.0	0.1
Manufacturing	5.4	7.6	10.5
Electricity, gas, air conditioning supply	0.7	1.0	1.0
Water supply, sewerage, waste	2.9	3.2	5.8
Construction	1.9	2.8	4.3
Wholesale, retail, vehicle repair	12.8	19.6	27.6
Transport and storage	4.8	6.9	10.0
Accommodation and food services	24.7	30.8	42.1
Information and communication	1.0	1.9	2.9
Financial and insurance activities	1.0	1.2	2.0
Real estate activities	4.3	5.3	6.6
Professional, scientific and technical	1.6	2.2	3.3
Admin and support services	12.3	16.4	22.5
Public administration and defence	0.8	1.3	2.5
Education	3.2	4.7	7.6
Health and social work	6.7	10.6	16.5
Arts, entertainment and recreation	12.2	14.1	20.3
Other service activities	11.0	12.0	16.3
Households as employers	10.8	13.3	21.4
Occupation:			
Managers, directors, senior officials	0.7	1.2	2.4
Professional occupations	0.3	0.4	0.5
Associate professional and technical	1.3	1.8	2.5
Administrative and secretarial	3.1	4.6	8.4
Skilled trades	5.8	8.2	11.9
Caring, Leisure and other service	11.1	16.9	26.7
Sales and customer service	15.8	24.2	33.4
Process, plant, machine operatives	9.8	13.5	18.7
Elementary occupations	24.2	31.0	41.7

Source: Landman Economics analysis of Labour Force Survey data for April-December 2017.

3 Comparing employees on National Minimum Wage/National Living Wage with self-employed workers of similar characteristic

How far might hourly wages fall in the absence of the National Minimum Wage/National Living Wage? This is a difficult question to answer as the National Minimum Wage was first introduced in the UK in 1999, when labour market conditions were very different to now. But one possible approach to estimating the impact of abolishing the NMW/NLW is to look at the hourly incomes of self-employed people – who are not subject to any minimum wage legislation. To do this, I used the UK Family Resources Survey (FRS – is a smaller data set than the LFS, but one which contains data on weekly earnings and hours worked for both self-employed workers and employees, whereas the LFS only has earnings data for employees). Using a technique known as 'quantile regression' I have analysed hourly earnings for low-paid employees (in the bottom 10% of the distribution of employee earnings) and compared them with low-paid self-employed people (in the equivalent part of the self-employed income distribution). The analysis controls for various characteristics of employees and jobs which might affect earnings[7], and looks at workers aged 25 and over only (to simplify the analysis by looking just at the National Living Wage rather than all Minimum Wage rates).

The results show that at the 10th percentile of hourly earnings - i.e. one-tenth of the way up the earnings distribution, which is just above the current level of coverage of the NMW/NLW - self-employed hourly remuneration is around £5 per hour lower than employees with similar worker and job characteristics. This is a very large difference as it implies that, given a National Living Wage of £7.83 per hour, equivalent self-employed people are earning around £2.83 per hour. Taken at face value this result implies that earnings for employees would collapse only around a third of their current level if the NMW/NLW legislation were abolished. However, this might be an overestimate of the impact of abolition, because for many self-employed workers, remuneration includes an element of profits as well as wages – and profits can be negative (i.e. losses) whereas wages can't be negative. Hence, the lowest self-employment incomes are likely to be lower than the lowest earnings for employees, even in the absence of a minimum wage. Nonetheless, the fact that self-employed incomes are so much lower than earnings for employees with similar characteristics suggest that the NMW/NLW is 'propping up' the distribution of earnings at the bottom end, and playing an important and substantial role in reducing in-work poverty. All this would be at risk if the NMW/NLW were weakened or abolished.

Conclusions

This paper has shown that weakening or abolishing statutory minimum wage protections in the UK labour market as part of a future post-Brexit trade deal or deals could have serious consequences for low-waged employees in the UK. It is entirely possible that hourly wage levels for the lowest paid workers could fall by several pounds an hour. Employees who are female, BAME, part-timers and/or those with few or no qualifications are likely to be the most badly affected.

And if leaving the EU leads to a fall of as much as 10 per cent in hourly wage levels (as one of the leading forecasters has suggested), this could more than double the number of employees being paid at minimum wage levels. This would increase the potential number of losers from softening of minimum wage legislation by a wide margin. Even a 5 per cent fall could increase the number of employees being paid at minimum wage levels by more than 65 per cent.

In the event of a 'no-deal' Brexit, which becomes a distinct possibility in the event that the House of Common's rejects the negotiated Brexit deal in its vote scheduled for 11th December, a substantial fall in wage levels becomes much more likely.

Whatever the final outcome of the Brexit negotiations, to avoid a substantial fall in wages in the post-Brexit UK labour market, it is important that the UK enacts policies to increase average wages and increase the share of wages in national income. Policies to boost wages include the following:

- Infrastructure investments in key industries, particularly public transport, communications infrastructure and renewable energy projects;
- Increasing trade union membership and the proportion of the workforce covered by collective bargaining agreements;
- Ending the restraints on public sector pay, whereby average earnings in the public sector have grown by less than inflation every year since 2010;
- Continued above-inflation increases in the National Living Wage, and extending coverage of the National Living Wage to employees aged under 25;
- A shift from insecure employment in the form of zero hours contracts, temporary workers and the 'gig economy' towards more stable employee jobs with better remuneration and more employment rights.

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